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## LD 1: Second-Year Impact on Tax Burden, 2007

Maine Department of Administrative and Financial Services

Maine Revenue Services

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### Recommended Citation

Maine Department of Administrative and Financial Services and Maine Revenue Services, "LD 1: Second-Year Impact on Tax Burden, 2007" (2007). *State Planning Office*. Paper 25.  
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## LD 1: SECOND-YEAR IMPACT ON TAX BURDEN

Prepared for:  
Joint Standing Committee on Taxation  
January 17, 2007

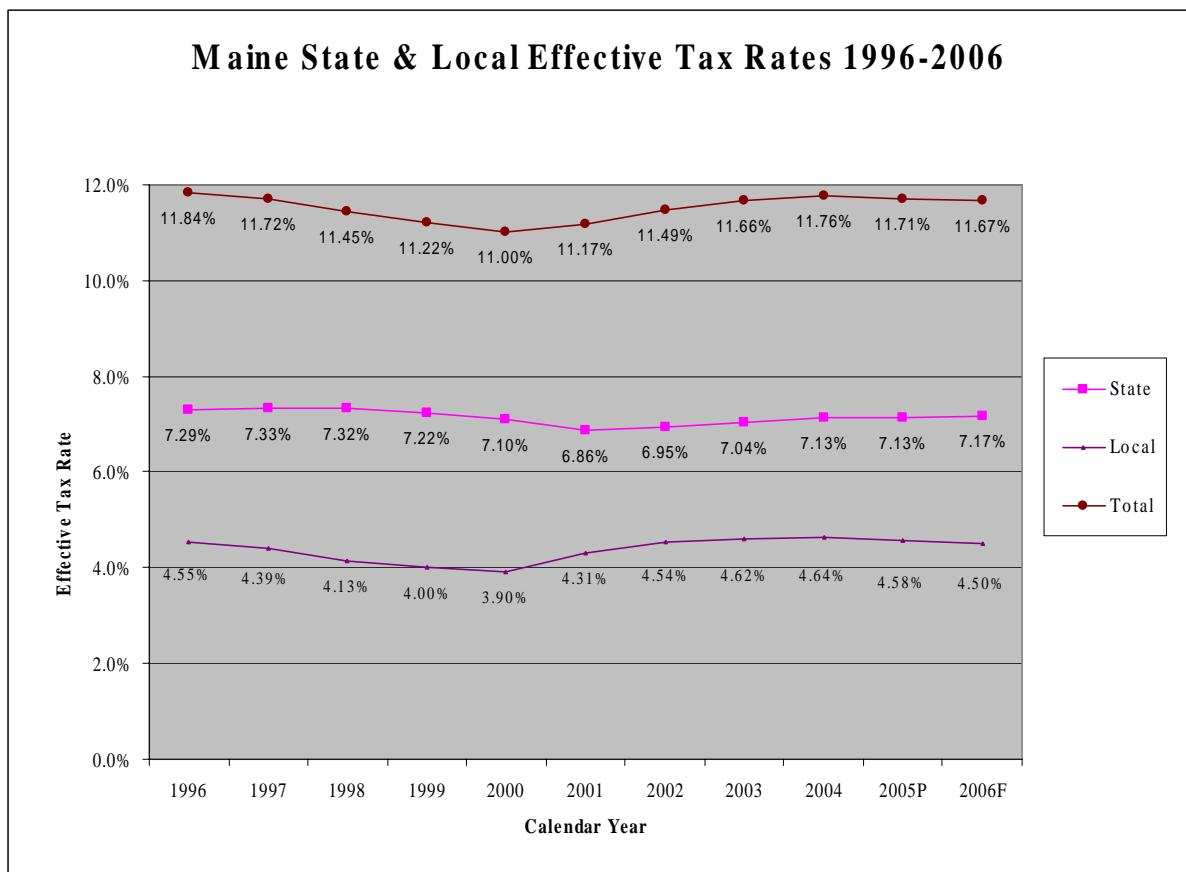
Prepared by:  
Maine Revenue Services

## ANALYSIS HIGHLIGHTS

1. The estimated state and local tax burden on Maine residents declined in 2005 for the first time since calendar year 2000. The biggest contributor to the decline was a reduction in the local tax burden on Maine residents. We estimate that the local tax burden continued to decline in 2006.
2. Property tax commitments grew much more slowly in 2005 than in past years, and in 2006 they grew at a slower rate than forecasted.
3. The passage of LD 1 was the most significant property tax event that coincided with the slowdown.
4. The cumulative impact of slower property tax growth and expanded property tax relief programs saved Maine resident homeowners and Maine businesses an estimated \$94 million and \$23 million, respectively.
5. Maine homeowners at all income levels saved money. Low-income homeowners experienced the greatest percentage property tax burden reduction.

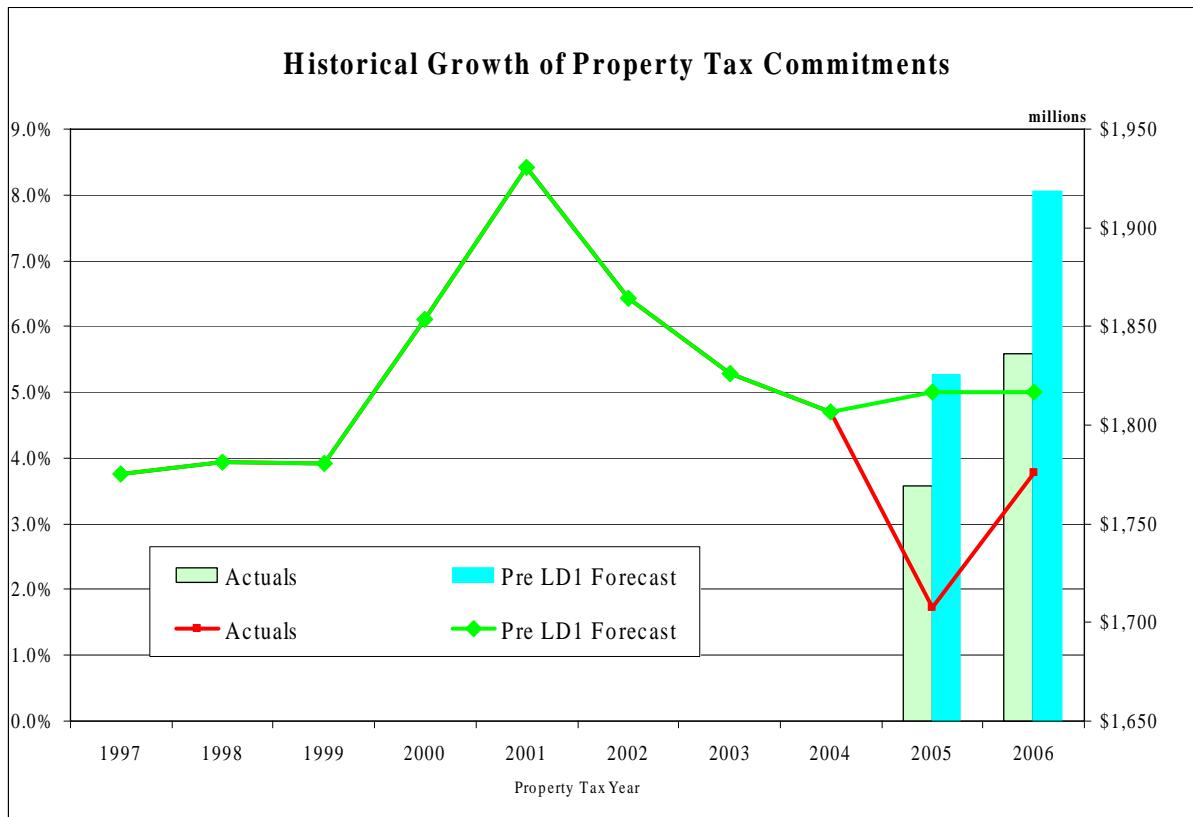
1. The estimated state and local tax burden on Maine residents declined in 2005 and 2006. The biggest contributor to the decline was a reduction in the local tax burden on Maine residents.

Maine Revenue Services estimates that the state and local tax burden on Maine residents fell from 11.84% in calendar year 1996 to 11.00% in 2000. Starting in calendar year 2001, the state and local tax burden on Maine residents began to increase on an annual basis as local property taxes increased at a higher rate than resident incomes. The recent analysis of the impacts of LD 1 indicates that the local property tax burden on resident families continued the trend that started in 2005. In calendar year 2006, local property tax burden on resident families fell as the percentage increase in local property taxes grew by less than projected income. This reduction in the local property tax burden should continue as state funding for K-12 education continues and more municipalities become subject to municipal and school spending caps. The state level tax burden, which stayed flat last year after growing at an average rate of 1.3% over the last three years, was statistically unchanged in 2006. The total tax burden on Maine residents continued the downward trend that was evident in 2005.



## 2. Property tax commitments grew much more slowly in 2005 than in past years, and in 2006 they grew at a slower rate than forecasted.

The graph below shows the rate of growth of property tax commitments in Maine for the past ten years. Based on past growth rates, Maine Revenue Services forecasted that property tax commitments would increase 5.0% in 2005 and 2006. Instead, they increased by 1.7% and 3.8%, respectively, for a combined two-year decrease of \$93 million from forecasted property tax commitments.



This finding is based on actual municipal level data for property tax year 2005 and 2006 preliminary data from 98% of Maine municipalities that submitted Municipal Valuation Returns through December 26, 2006. Note: A municipality's property tax "commitment" is the amount of property tax revenue that its legislative body approves to collect through property taxes.

Property Tax Year	Rate of Growth
2000	6.1%
2001	8.4%
2002	6.4%
2003	5.3%
2004	4.7%
2005	1.7%
<b>2006 Forecasted</b>	<b>5.0%</b>
<b>2006 Actual</b>	<b>3.8%</b>

3. The passage of LD 1 was the most significant property tax event that coincided with the slowdown.

LD 1 is the most significant change in property tax policy that has occurred in Maine over the 2005 and 2006 tax years. LD 1 increased state appropriations for local K-12 education by \$101 million in FY06 and an additional \$78 million in FY07, and established limits for the growth of municipal property taxes, county assessments, and appropriations by school administrative units. The significant decrease in the 2005 property tax growth and the subsequent slower growth in 2006, as compared to forecasts, corresponds to the passage of LD 1.

4. Slower property tax growth and expanded property tax relief programs saved Maine resident homeowners and businesses an estimated \$94 million and \$23 million, respectively.

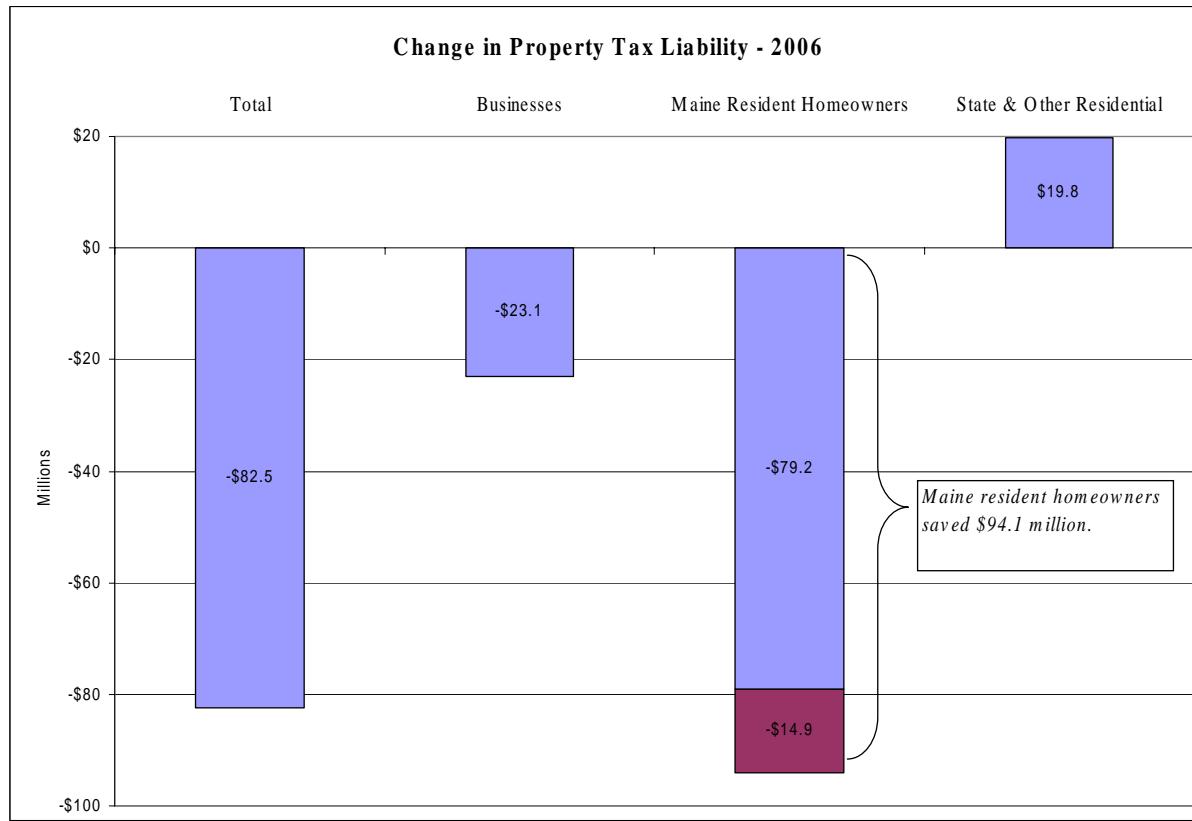
The table below shows the combined effect of slower property tax growth, the expanded Homestead Exemption, and increased funding for the Maine Residents Property Tax and Rent Relief Program (i.e., “Circuit Breaker”).

(Millions)	2006 Forecasted	2006 Actual	Difference
<b>1. Property Tax Liability</b>	<b>\$1,918.6</b>	<b>\$1,836.1</b>	<b>-\$82.5</b>
<b>2. Business Property Tax Liability</b>	<b>\$511.3</b>	<b>\$488.2</b>	<b>-\$23.1</b>
<b>3. Residential Property Tax Liability</b>	<b>\$1,407.3</b>	<b>\$1,347.9</b>	<b>-\$59.4</b>
4. Maine Primary Residences	\$1,102.1	\$1,022.9	-\$79.2
5. Other Residences & State Payment	\$305.2	\$325.0	+\$19.8
<b>6. Circuit Breaker (Homeowners only)</b>	<b>-\$22.1</b>	<b>-\$37.0</b>	<b>-\$14.9</b>
<b>7. Total Savings for Maine Resident Homeowners</b> (Reduced Liability plus Circuit Breaker)			<b>-\$94.1</b>

If property taxes had grown at 5.0% as forecasted, total property tax commitments would have been \$82.5 million higher than they actually were (line 1). Approximately \$23.1 million of that savings went to Maine businesses (line 2), even after accounting for any shift that may have occurred because of the expanded Homestead Exemption. The remaining \$59.4 million went to residential property owners (line 3). Within that group, Maine residents saved \$79.2 million on property taxes on their primary residences, while other residential property owners (non-Maine homeowners and second-home owners from Maine) and state government's property tax liability increased by \$19.8 million (line 5). Increased state liability primarily reflects state funding of the Homestead Exemption.

Maine resident homeowners received another \$14.9 million in property tax relief through the Circuit Breaker program (line 6). Refunds from that program are expected to reach \$37.0 million this year.

In total, Maine resident homeowners saved about \$94 million: \$79.2 million from the break from high property tax growth and another \$14.9 million from the Circuit Breaker. Maine businesses saved about \$23 million.



5. Maine homeowners at all income levels saved money. Low-income homeowners experienced the greatest percentage property tax burden reduction.

The table below shows the estimated average net property tax liability of Maine homeowners with and without LD 1, broken down by income decile. The red columns labeled “Pre-LD 1 Estimated Property Taxes” show the net property tax liability of homeowners in 2006 under the old Circuit Breaker and Homestead Exemption rules and 5.0% property tax growth in 2005 and 2006. The blue columns labeled “LD 1 Estimated Property Taxes” show model-developed estimates of property tax liability for homeowners based on actual property tax data with the expanded Circuit Breaker and Homestead Exemption rules of LD 1. Tax burden is measured by average net property tax liability as a percentage of average income.

*Estimated Impact of L.D. 1 on Net Property Tax Liability of Maine Residents - Tax Year 2006*

Decile	Expanded Income	Homeowners	Average Expanded Income	Pre-LD1 Estimated Property Taxes /1			LD1 Estimated Property Taxes /1			Average Reduction	
				Total (\$M)	Average	Burden	Total (\$M)	Average	Burden	Dollars	% Change
First & Second	-\$ Infinity <= \$10,460	33,013	\$5,296	\$60.3	\$1,827	34.5%	\$52.6	\$1,594	30.1%	-\$234	-12.8%
Third	\$10,460 <= \$15,627	23,275	\$13,174	\$40.4	\$1,734	13.2%	\$35.2	\$1,514	11.5%	-\$220	-12.7%
Fourth	\$15,627 <= \$21,246	28,926	\$18,385	\$54.6	\$1,886	10.3%	\$47.6	\$1,644	8.9%	-\$242	-12.8%
Fifth	\$21,246 <= \$28,925	36,428	\$25,226	\$73.2	\$2,008	8.0%	\$65.8	\$1,807	7.2%	-\$202	-10.0%
Sixth	\$28,925 <= \$39,104	39,707	\$33,700	\$89.0	\$2,242	6.7%	\$80.4	\$2,026	6.0%	-\$216	-9.6%
Seventh	\$39,104 <= \$51,795	45,522	\$45,315	\$114.0	\$2,504	5.5%	\$103.2	\$2,267	5.0%	-\$237	-9.5%
Eighth	\$51,795 <= \$70,549	55,039	\$60,864	\$151.1	\$2,745	4.5%	\$136.9	\$2,488	4.1%	-\$258	-9.4%
Ninth	\$70,549 <= \$101,694	60,371	\$84,447	\$192.3	\$3,185	3.8%	\$176.8	\$2,928	3.5%	-\$257	-8.1%
Tenth	\$101,694 <= \$ Infinity	62,001	\$205,266	\$305.2	\$4,923	2.4%	\$287.4	\$4,635	2.3%	-\$288	-5.9%
Total		384,282	\$68,980	\$1,080.0	\$2,810	4.1%	\$985.9	\$2,566	3.7%	-\$245	-8.7%

Source: State of Maine Property Tax Model, Individual Income Tax Model and Preliminary 2006 Municipal Valuation Report

1/ Property tax paid is net of Homestead Exemption and Maine Resident Property Tax Program Refund.

The bottom line of the table shows that Maine resident homeowners would have paid approximately \$1,080.0 million in property taxes without LD 1. Their actual estimated payments are \$985.9 million (about \$94 million less, as previously discussed). The average homeowner paid \$245 or 8.7% less with LD 1 than they otherwise would have paid. This amount was fairly consistent across all income deciles. However, this represents a larger percentage tax burden reduction for homeowners in the lower income deciles. The estimated property tax burden of homeowners in the first and second deciles fell from 34.5% of expanded income without LD 1 to 30.1% with LD 1, a decrease of 12.8%. By comparison, homeowners in the top income decile received an average tax burden reduction of 5.9% (from 2.4% to 2.3% of expanded income).

### Average Tax Burden Reduction (by income decile)

